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SUBJECT: WASHINGTON WORLD ECONOMY SUMMIT - MORE ON ITALIAN  
VIEWS

REF: ROME 1315 AND PREVIOUS

Classified By: DCM Elizabeth Dibble for reasons 1.4 (b) and (d)

11. (C) Summary -- A top advisor to the Minister of Economics and Finance told econoffs November 5 that Italy's objectives for November 15 are modest, rooted in the realization that the Washington summit will be just the first of a multi-step process to address problems in the global financial regulatory regime. Italy looks to next year when it will assume the G8 Presidency and the UK leads the G20 as the ideal time to collaborate with the US on sound and realistic reform measures. Italy's first priority remains containing the financial crisis' negative effects on the 'real' economy. To that end, they will push for EU fiscal stimulus in the form of infrastructure spending and continued global coordination to address the immediate financial crisis. In that regard, Italy is concerned that the G20 may prove a difficult forum for economic policy consensus. On November 7 Italy it will meet with EU counterparts to finalize the European position. Italian technocrats are advising a go-slow approach, valuing international consensus above all in order to bolster a still fragile global financial system. Italy could thus prove a useful counterweight to sweeping proposals over-regulating financial markets. End Summary.

12. (C) Econ Mincouns on November 5 called on Carlo Baldocci, Diplomatic Advisor to Minister of Economics and Finance Giulio Tremonti, to discuss Italy's objectives for the Washington Summit on Financial Markets and the World Economy. Baldocci indicated that Italy's objectives for November 15 are modest, rooted in the realization that the summit will be only the first step in a lengthy process to address problems in the global financial regulatory regime. Italy considers the paper the US circulated for the Summit very useful and expects agreement on appointment of technical experts to study deficiencies or lack of coordination in corporate accountability, accounting standards and other topics. Baldocci and contacts at the Central Bank we spoke with at the embassy's election eve event gently deflated the notion, conjectured in the press here and by various political

leaders, that Washington will yield a "new Bretton Woods."

¶3. (SBU) Baldocci stressed that consensus in approach to the financial crisis and, later, regulatory reforms, is essential to contain the effects of the crisis on the real economy. The GOI remains deeply concerned that interbank lending sclerosis will lead to banks (further) curtailing credit to Italian firms and households. The Italian Central Bank believes that it is due only to coordinated world-wide injections of liquidity that Italian banks have not cut off credit to the economy altogether.

¶4. (C) In that regard, Italian policymakers are concerned that the G20 may not be the most suitable forum for continued coordination and collaboration. Baldocci opined that the group hasn't much of a track record addressing problems of any great magnitude, lacks a transparent process, and includes members of such widely diverging economic interests and policy transparency (pointing out Brazil, India and China) that meaningful agreement on even a short-term policy course will be very difficult. Reading Baldocci between the lines, it seems Italy would prefer that a smaller group (Italy assumes the G8 Presidency next year...) attend to the current global economic situation.

¶5. (C) Assuming, however, that the G20 will remain the main vehicle for addressing financial market reform, Italy welcomes the UK's rise to the leadership of that group. Baldocci anticipates that the lineup of the US, UK and Italy can succeed in shepherding sound, reasonable reform. He did not elaborate on the likely dynamic between such a triumvirate and the EU, but noted that the two EU presidencies following the French will be by non-Euro nations - the Czech Republic and Sweden. In order to ensure they maintain a proper focus, Euro nations may claim primacy within the EU on matters of international financial policy coordination. According to Baldocci, French president Sarkozy has already floated the idea, but the proposal has not found favor with Euro group president Jean-Claude Juncker.

¶6. (SBU) Italian officials will attend a Brussels meeting November 7 to sort out the EU position for the Washington summit. Baldocci opined that the proposal circulated by France contains various good ideas, but did not elaborate on them. Italy is focused on measures to mitigate the financial crisis' effect on households and businesses, and will thus continue its campaign with Euro-land partners to adopt region-wide stimulus measures, especially increased infrastructure spending. In this regard, Germany has proven difficult, said Baldocci.

¶7. (C) Comment: In conversations with us, Baldocci and Central Bank contacts have been quick to walk back the more dramatic declarations about radical financial market restructuring issuing from political leaders, whether from their own Tremonti and Berlusconi, or president Sarkozy. This could reflect their belief that policymakers must carefully study all the consequences from changing any part of the current regulatory system, let alone of a wholesale change, before acting. Whatever the reason, they are advising Italy's political leadership to take a deliberate and careful approach. Italy could therefore prove a useful ally in holding back some of the more dramatic proposals that may be urged in Washington. End Comment.

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